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William A. Bonnet
Vice President
Government & Community Affairs

September 21, 2007

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
465 South King Street, First Floor
Kekuanaoa Building
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2006-0386 – HECO 2007 Test Year Rate Case
Energy Cost Adjustment Clause

This response is respectfully submitted jointly on behalf of Hawaiian Electric Company, Inc. ("HECO"), the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate") and the Department of the Navy on behalf of the Department of Defense ("DOD") (i.e., the "Parties") to the Commission's Letter to the Parties dated September 18, 2007.

The Commission's Letter to the Parties dated September 18, 2007 states that:

The Parties' Stipulated Settlement Letter, filed on September 6, 2007, indicates that: (1) in a subsequent document, the Parties will address the issue of whether there should be a sharing of the risk associated with changes in the price of oil that is reflected in [HECO's] existing Energy Cost Adjustment Clause ("ECAC"); (2) the agreement that is reflected in the Stipulated Settlement Letter is intended to provide HECO with timely rate relief through the commission's authorization of the stipulated interim rate increase; and (3) the Parties' agreement, if any, on the ECAC matter is not expected to impact the agreement on the increase to which HECO is probably entitled as set forth in the Stipulated Settlement Letter.

The Letter asks "when the Parties will file written briefs addressing the ECAC issue, and whether the Parties will submit briefs addressing the ECAC issue separately or jointly." The Parties have agreed to either submit a joint stipulation addressing this matter, or address the matter separately in their proposed findings of fact and conclusions of law to be filed with respect to the Pension Asset issue. The intention is to file a joint stipulation, if agreement is reached, by October 5, 2007. As stated on page 4 of Exhibit 1 to the Stipulated Settlement

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Letter: "The Parties are continuing discussions with respect to the final design of the ECAC to be approved in the final decision and order and will either submit a further stipulation regarding this matter, or address the matter in their respective proposed findings of fact and conclusions of law." As stated on page 3 of the Stipulated Settlement Letter, the proposed findings of fact and conclusions of law would be due October 5, 2007. Replies would be due November 3, 2007.

The Letter also asks: "Assuming the commission issues interim rate relief as requested by the Parties, and the Parties subsequently agree to, or the commission issues an order with, a different risk-sharing formulation under HECO's ECAC, what effect, if any, would the different risk-sharing formula have on the interim rate relief granted in the commission's interim decision and order, and the calculation of any refunds that may be required?"

If the Parties subsequently agree to, or the Commission issues an order with, a different risk-sharing formulation under HECO's ECAC, this would not affect the interim rate relief, and would not be the basis for any refund. As stated on page 3 of Exhibit 1 to the Stipulated Settlement Letter: "For purposes of the interim rate increase, the Parties agree that the ECAC should continue in its present form. (See discussion on Act 162 below.)" Exhibit 1 goes on to state on page 4 that: "The Parties agree, however, that their resolution of this issue [i.e., the ECAC design issue] will not affect their agreement regarding revenue requirements, and that it is appropriate for the Commission to issue its interim rate order based on the stipulated revenue requirements."

Any change in the ECAC would be prospective. The ECAC recovers (or passes through) changes in fuel costs based on changes in the base rate fuel prices. Even if there was only partial pass through of changes in fuel costs after the new rates with a modified ECAC became effective, it would not impact the base rates set in this proceeding.

By way of further explanation, the ECAC allows the utility to recover/return the difference between actual fuel and purchased energy costs and the fuel and purchased energy costs embedded in base rates, based on changes in the base rate fuel prices and purchased energy costs. In general, a risk-sharing formula would affect how and to what extent that difference between the base rate fuel prices established in this proceeding and the current fuel prices is recovered from or returned to ratepayers on a prospective basis.

The estimate of test year revenues at proposed rates would not be affected by a change in the risk-sharing formula, because test year revenues at proposed rates are estimated with the Energy Cost Adjustment Factor ("ECAF") equal to zero (which results from test year fuel and purchased energy costs being embedded in proposed base rates).¹ Thus, there is no difference between the test year estimates of fuel and purchased energy costs at proposed rates and the fuel and purchased energy costs embedded in proposed base rates, and no differential amount to which an alternative risk-sharing mechanism would apply as it pertains to the revenue

¹ "The Parties agree that the ECAF at present rates is 7.340 cents/kwh, and that the ECAF at proposed rates is 0.000 cents/kwh." See page 3 of Exhibit 1 to the Stipulated Settlement Letter.



requirements and resulting base rates that are authorized by the Commission in a final Decision and Order for the instant docket.

The estimate of revenue at current effective rates should not be affected, because any change in the risk sharing formulation would be prospective. HECO would prospectively change the calculation of the energy cost adjustment to reflect the alternative risk-sharing mechanism that is approved by the Commission in a final decision and order in this case.²

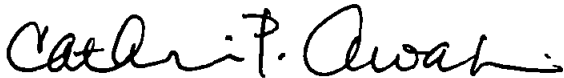
A change in the risk-sharing formulation following a Commission final order in the rate case may affect the revenues recovered through the ECAC in the future, as a result of changes that would be necessary to future monthly ECAF filings. However, those future changes would not affect the level of interim rate relief nor create a basis for refunds.

Very truly yours,



William A. Bonnet
Vice President,
Government and Community Affairs

Concurred:



Catherine P. Awakuni
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs

Dr. Khojasteh Davoodi
Department of Defense

² As noted on page 3 of Exhibit 1 to the Stipulated Settlement Letter, the Parties have already agreed on certain changes to the ECAC, which would be made when the final rates approved in this docket take effect.



The Hawaii Public Utilities Commission
September 21, 2007
Page 3

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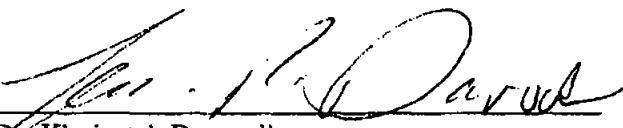
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